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January 28, 1972

ANALYTICAL SUMMARY

ISSUES IN SOUTH ASIA

This analytical summary covers the papers at the following tabs:

- Strategy. State Department paper on alternate strategies--one going more slowly with India, the other moving more rapidly.
- Humanitarian Assistance. A joint State/AID paper entitled "Humanitarian Assistance Policy for South Asia."
- Economic Aid. A joint State/AID paper entitled "Economic Policy for Pakistan and India." This and the paper on humanitarian assistance provide the basis for discussing our position at the UN and in the Kennedy hearings.
- Ceasefire and Withdrawal. This is essentially an NSC staff paper which deals with broader issues raised in a State Department paper prepared for the last meeting entitled "Problems of Disengagement and Withdrawal." This covers Pakistan's request for a UN Security Council meeting.
- Military Supply. There are three papers: (a) State Department paper entitled "Commerce Licenses for India and Pakistan"; (b) State Department paper entitled "Military Supply Policy for Pakistan and India--Munitions List Items"; (c) Defense Department paper on options for resuming "Military Supply for Pakistan."

In this analytical summary these are considered under four headings:

(a) Strategy; (b) Humanitarian and Economic Aid; (b) Ceasefire and Withdrawal; (c) Military Supply with its separate sub-problems (Commerce and Munitions List items).

In order that this may aid you and the SRG in moving our decision-making a step forward, we have used the format below of (a) stating the State/AID recommendations on each issue, (b) discussing the issues and (c) concluding with a possible sentence reflecting a decision. If this approach works, you could come out of the meeting with a series of precise statements which would constitute guidance on the key issues. These are also used in your talking points.

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Strategy

The State Department paper defines two possible strategies:

Strategy I -- Slower. Under this strategy we would make no major policy modifications while Bhutto is working towards negotiations with the East Bengalis and the Indians, while the process of Indian withdrawal in the East is incomplete, and while the Bangladesh government is still establishing itself. Since few immediate decisions are required we would adopt a waiting posture going forward with programs slowly as events on the ground dictated. With India we would take no initiatives to normalize relations, beyond indicating to the GOI that we hope to put our relations on a new basis once bilateral Indo-Pakistan issues had moved somewhat closer to settlement. With respect to Bangladesh we would continue to avoid substantive political discussions with the Bangladesh leadership.

W Strategy II -- Faster. As an alternative we might seek to move somewhat more rapidly to take advantage of the state of flux in the area, not only to build upon the close relations with Pakistan developed over recent months, but also to develop a relationship with Bangladesh before its external ties are set, perhaps to our disadvantage, with the Soviet Union and other communist countries, and to respond to Indian initiatives for a normalization of relations. This strategy would begin to move the US to a more independent position vis a vis the three major powers of the area. With India we would rather more positively indicate interest in normalizing relations. With Bangladesh we would soon signal our intent to recognize, allowing time for Bhutto to run through some reasonable timetable.

The issues not addressed in depth here are: (1) Should we move somewhat more quickly with Bangladesh than with India? (2) What are the arguments for relating the pace of bilateral relations to the pace of an overall South Asian peace settlement. It would be possible, for instance, to move ahead in laying the basis for a relationship with Bangladesh while pacing the normalization of our relations with India to an India-Pak settlement. The question of a broader settlement is not dealt with in any of the State papers. It is a major question how deeply we wish to involve ourselves in that process (see "Ceasefire and Withdrawal" below.)

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NSC recommendation: That we act in terms of a go-slow strategy until the end of February; lay the groundwork during this period for establishment of a relationship with Bangladesh in March; pace normalization of our relationship with India to a broader settlement of the immediate issues growing out of the war.

Humanitarian Assistance and Economic Aid

The State/AID papers on humanitarian assistance and on economic aid policy are drafted around a series of recommendations. These are listed below with necessary discussion under each. At the conclusion of each discussion paragraph is our more precise recommendation which we suggest you try to reach agreement on at the conclusion of discussion.

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State/AID recommendation 1: Within the framework of a UN relief program with international support, the US would make available for relief in East Bengal PL 480 foodgrain and oil, utilizing portions of the 725,000 tons (about \$75 million) which were committed for relief efforts in East Pakistan last August and September but not shipped. (This would require cancelling old agreements with the government of Pakistan and working out new arrangements with the UN.)

The issue is just exactly how much we are committing now if we approve this recommendation. The choice is between (a) deciding now to earmark the total amount to be drawn on in stages and (b) dividing it into several smaller amounts to be committed one a time. The advantages of earmarking now are that it appears more forthcoming and our planners know that they have approval of an overall framework provided certain other criteria are met (for instance, adequate participation by other nations in an international effort). The advantage of slicing this total amount into smaller amounts is that it preserves clear White House control at each step of the way. The further advantage is that we appear more forthcoming to commit a large amount even if we place certain operational restrictions on its disbursement than if we commit only in small amounts.

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NSC recommendation: Preparations may be made to earmark approximately 725,000 metric tons of PL 480 foodgrain and oil to East Bengal, and planning may proceed on the basis that this amount is available. Disbursements will be in accordance with criteria on what the US share of an international effort should be.

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State/AID recommendation 2: We should defer any further commitment of US funds--in contrast to commodities--for humanitarian relief until the size of the international response that the UN appeal becomes apparent.

The issue is whether we maintain this position or whether we might authorize something like \$5 million for Williams to negotiate with provided criteria are met on the US share. The argument for deferring commitment of funds is to reinforce our position that the international community not take our contribution for granted. The argument for a provisional commitment is that, again, US would appear more forthcoming both in New York and before the Congress if it were able to discuss US support in the context of contributions by others. [There is another issue in whether we can now draw on a small amount of money left over from previous commitment, yet undisbursed. It will be resolved in connection with the overall decision on this issue.]

NSC recommendation: A sum of \$5 million should be authorized as part of US support for the UN effort provided other criteria on the US share are met.

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State/AID recommendation 3: US support of the short range UN relief and rehabilitation effort should be in the range of 30 - 35% of the total actually made available by all donors, although we should reserve the option of playing a larger role depending on the trend in general relations.

There are two issues here:

--Is the range of 30-35% the right share? This is on the low side, closer to the overall proportion of UN spending that many in the US would like to see us move toward. On the other hand, the US is in

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a unique position in the world because of its agricultural abundance to provide food support. During the 1965-66 famine years in India, the US said it would "match" contributions by others--accept a 50% share--and even this proved difficult to manage. We faced the issue that the US is going to let people starve because others won't contribute. Also, it may be one thing to establish a low share for financial contributions but perhaps more appropriate for the US to do a larger share where food is involved. The choice, therefore, would seem to be between the 30 - 35% range and range around 50%.

-- What kinds of contributions should be included in the calculation of shares? Should we include all commodities and cash? Should we just speak of cash? Should we deal with US support for US voluntary agencies apart from the general international effort? There is a very strong argument for not getting too heavily committed to a precise formula because it is too difficult to administer and makes us appear too restrictive. If we are including commodities, we should think in terms of a large total share. If we are thinking in terms exclusively of cash, it may be that the US share should be less than 30%. We would suggest dealing with US support for US voluntary agencies apart from our contributions to the UN effort.

NSC recommendation: In financial contributions, the US should provide about 30% of total financial contributions. The US, however, may provide in commodities up to 50% of the total value of the UN effort valued to include all contributions in cash and in kind. US support to private US voluntary agencies and to the international Red Cross shall be apart from the US contribution to the UN effort. We should use these proportions in-house and not become too rigidly committed to them publicly.

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State/AID recommendation 4: That the US participate in UN and possibly IBRD discussion on longer-range reconstruction and rehabilitation efforts in Bangladesh but defer making any commitment until our future political relationship is clear. This would also apply to our presently suspended AID development projects in the former area of East Pakistan.

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The issue here is whether US participation implies intent to participate in the long run and whether we want to convey such intent. This goes back to the broader question of how we see our political relationship with Bangladesh evolving. If we intend to recognize within the next few months, participation in discussion of this issue would be reasonable both as a signal that could help us buy time and as a move to influence how things evolve. If, on the other hand, we do not intend to provide development assistance to Bangladesh this year, then we should probably go slow in participating.

NSC recommendation: US representatives may participate in the discussion of reconstruction and rehabilitation efforts in Bangladesh, but they will be under strict instructions in no way to imply that the US will make any financial commitment at this time.

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State/AID recommendation 5: The US should reply to an appeal by the UNHCR for Pakistani refugees in India by contributing 30 - 35% of the \$122 million which India estimates is required and by announcing an initial commodity contribution of \$10 million.

The basic issue is whether we provide support for any refugees in India or whether we concentrate our assistance on those refugees who return to East Bengal. Even though State and AID recommend commodity rather than cash assistance, this is essentially an exercise in relieving a burden on India. The argument for doing so is that the US has maintained that it was willing to do all possible to offset the burden of the refugees before the war and should continue doing so to bolster the argument that the US is not interested in punishing India. The argument against is that the Indians in effect rejected our solution to the problem and opted for military action and we should not reward it; India now should have to face up to the costs of its action. Also, there is an argument for not making the refugees too comfortable where they are and encouraging them to return to East Bengal.

NSC recommendation: That the US pledge a commodity contribution of \$10 million and review the situation when it is clear how much others are contributing. [This would be a token.] As a matter of strategy, the US should concentrate its refugee effort in Bangladesh and should deal with the question of refugees in India in the context of broader development assistance to India.

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State/AID recommendation 6: Action on this recommendation is already in train, so this is more a matter of checking a course already underway than of approving a new one. Bhutto requested permission to export 300,000 tons of low quality rice from West Pakistan. Normally, under PL 480 regulations, this would not be permissible as long as we are exporting grain to Pakistan. But an exception has been made in this case because of post-war disruption. Bhutto further asked us to make a grant that would permit him to give this rice to Bangladesh. This is not possible under US law but Bhutto has been told the US would help in meeting the foreign exchange costs of transporting some of this surplus rice to Bangladesh if he can make arrangement with the authorities there. It is also true that our PL 480 agreement for wheat is in the nature of a subsidy.

NSC recommendation: That this course of action be approved.

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State/AID recommendation 7: The US should adopt a forthcoming attitude at the February 22 consortium meeting on further debt deferral for Pakistan and should indicate to Pakistan a readiness to act in concert with other consortium members in resuming development support as soon as a revised development strategy is available. (The World Bank tentatively envisages a consortium pledging session in July, but some FY 1972 program lending may be necessary for short term financial support.)

The issues are two: (a) The Treasury Department would like to see us deal with the debt question in a way that would indicate that one more deferral is all we have in mind and that it should be of relatively short duration to permit the Pakistanis to develop an overall framework for debt repayment and renewed development lending. (b) We need to decide whether we intend to be fairly restrictive or fairly forthcoming in resuming normal development assistance. As the State/AID paper indicates, it may be summer before a full development strategy is available, and we should begin to sort ourselves out on whether we would be forthcoming about an interim loan before then.

NSC recommendation: That we work with the Pakistanis and the World Bank to establish as forthcoming an arrangement as possible on one more debt referral and that we indicate to Pakistan our willingness to resume development lending as soon as a new development strategy is available. We would not mention to the Pakistanis at this time and would reserve judgment on short term financial support beyond PL 480 and beyond debt relief.

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State/AID recommendation 8: That we hold in abeyance for now any decision on lifting suspension of the FY 1971 pipeline for India, that this be reviewed at frequent intervals with an eye toward release, that we conclude a PL 480 agreement for vegetable oil if India wants it but hold other PL 480 agreements, that we permit USG agencies like the Ex-Im Bank, the Overseas Private Investment Corporation and the Commodity Credit Corporation to do business as usual because their programs are primarily for the benefit of US trade and investment.

The issue is how we plan to deal with the question of future economic assistance to India. The State/AID paper does not come to grips with this issue. Its suggestions on PL 480 are virtually meaningless; the Indians have indicated that they do not want to pick up our offer of vegetable oil and probably will not want to do so until they know what the larger aid context is going to be.

The choice is between letting matters drift as State now seems to want to do and setting out for ourselves now some fairly realistic time period within which some kind of development assistance might be resumed so that we would know what kind of dialogue we want to have with the Indians on the question of economic assistance.

NSC recommendation: That AID be asked to develop two possible strategies with regard to future development assistance to India. One of these would be based on a gradual resumption of an aid program along the lines of that which existed before the war. The other would pose some new development assistance relationship. It is recognized that any new relationship would have to take off from where we are now and could not be radically different but would go in some revised direction. That US agencies involved in promoting US exports be permitted to proceed on the basis of commercial criteria.

Ceasefire and Withdrawal

The problem has three general aspects--the western front, Bangladesh, and the status of prisoners and other displaced persons in both East and West. The immediate problem that has to be dealt with is that Pakistan has requested an urgent meeting of the UN Security Council to deal with India's alleged violations of the ceasefire on the western front. This however immediately gets into questions of how the withdrawals on the

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western front should be negotiated, and that in turn is linked with the broader questions of Pakistan's relations with Bangladesh and the exchange of persons involved in a final settlement. The position that the US takes in the Security Council could be a relatively passive one or it could press for movement toward a negotiation of these issues.

The issues seem to be: (a) Should the US be engaged in forcing and shaping a negotiation or should we simply let the Indians and the Pakistanis work out their own solution? (b) How far the US should go--insofar as our influence has any effect--in letting the Indians use this negotiation to establish a permanent settlement of the Kashmir issue? (c) Should the US push a more active role for the United Nations now? There is an argument for using this moment of postwar trauma for settling the Kashmir issue once and for all, but it would not seem consistent with our December position to reward India in this way. There may be an argument for taking the position that issues arising from the war should be negotiated first and then India and Pakistan should then attempt to normalize relations.

At the UN, that would suggest letting the Pakistanis have their say about ceasefire violations and using the consultations to stimulate the beginning of negotiations on return to prewar positions on the Western front.

Military Supply: Commerce Licenses

State/Commerce recommendation: That the pipeline under existing licenses continue to flow as it is now and that the informal hold on new license applications be lifted for both India and Pakistan. [This was never announced, and the change now would not have to be a big thing.]

The facts: New license applications worth approximately \$800,000 for Pakistan and \$900,000 for India are under an informal hold. Under these applications, Pakistan would buy three Bell helicopters for the Defense Ministry and spare parts for Pakistan International Airlines. India would buy aircraft spare parts and electronic equipment for the Indian air force as well as ground-based air navigation equipment. The hold for Pakistan has already been partially lifted to provide several items which Ambassador Raza specifically asked for; this was approved at the last SRG meeting.

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Shipments under valid licenses outstanding have never stopped flowing to either India or Pakistan according to the State Department paper. The Commerce Department opposes revoking valid licenses on commercial grounds; Commerce licenses have been completely revoked only once before, in the case of China during the Korean war. Commerce points out that revocation would affect the ability of US suppliers to sell abroad because the availability of replacement of spare parts would be called into question.

The issue is whether we adopt a general posture that we will turn loose equipment in this category which is of less direct military significance and which is the subject of commercial transactions. The argument for doing this is to leave a door open for US military supply to the subcontinent on a cash-and-carry basis rather than unnecessarily tying our hands. Publicly we have addressed only Munitions List items. If US suppliers still wish to market their goods in Pakistan and India, the buyers must assume that the source of supply is going to be reliable. The argument against this approach is that it is too soon to show any gesture of this kind toward India. This would argue for leaving matters where they stand, honoring Pakistani requests when they come up but continuing to hold off for India. Another way of putting the issue is whether or not we are going to move our arms policy toward a strictly commercial supply operation such as the British have had or whether we are going to incorporate even the commercial aspects of military supply into a political policy.

Discussion. In order not to take us out of the military supply business altogether, it does seem desirable to leave our commercial channels open and without impediment.

NSC recommendation: That we act now as if there were no hold on application for commerce licenses.

Military Supply: Munitions List Items

The State Department recommends that our policy of holding up on Munitions List items for both India and Pakistan should continue essentially unchanged for the next several weeks, deferring any decisions until after the situation in South Asia is further clarified. Defense Department argues that this makes sense because Bhutto has said he would reduce the size of the armed forces and there is no basis from which to provide arms until his own defense policy is clear. Defense also points out Congressional reaction will be strong if military supply is resumed without some agreed political framework of peace in South Asia.

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The facts: For Pakistan, there are four categories of equipment now being held up that could be released in this sequence if desirable: (a) There is materiel being held in warehouses when the freeze was imposed. (b) There is a possibility of releasing a few items which are particularly important to American companies. (c) There is a possibility of renewing all previous FMS cases under the April 1967 policy. (d) Action could be renewed on the one-time exception.

Defense would recommend dealing with these items in the sequence indicated if military assistance to Pakistan is renewed but it recommends that all of these be held in abeyance at least until the start of negotiations toward an armistice and until we know what Chinese intentions on military supply to Pakistan are. State Department notes the possibility of a new one-time exception to clear up inequities in the freeze--both inequities to Pakistan and to American suppliers. Generally, State concurs in the notion of holding any major sales until a settlement between India and Pakistan on the issues arising directly from the recent war.

For India, State Department recommends that no decisions be made now to modify the Munitions List embargo for India. As in the case of Pakistan, however, there is a list of problems created for American companies whose sales have been interrupted by the freeze.

The issue--and maybe it cannot be resolved now--is whether we are going back into the military assistance business in South Asia. This cannot be solved on a short-term basis and it cannot be resolved outside the context of what kind of relationship we wish to have with the three nations in South Asia. It is possible to envision an intermediate step to clean up the inequities both to India and Pakistan and to American suppliers, but it is possible that this would create as many new problems as it resolved.

NSC recommendation: It seems reasonable to us that a first step in the military supply field regardless of what our ultimate policy is to be might well be to try to clean up the inequities and imbalances created by the freeze of the last few months. Therefore, we recommend that State and Defense be asked to come up with a separate package each for Pakistan and for India which would in effect clear the books of pending inequitable situations. The purpose would be to clean up inequities to American suppliers and unfair costs to the recipients. The package we put together on a contingency basis without the thought that a decision would be made in the immediate future.

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